COMMENT/ *By John J. Mingo*

The Tantalizing Prospect Of a Thrift Acquisition

There has been a virtual explosion in bank/thrift deals since Aug. 9, when the Financial Institutions Reform, Recovery, and Enforcement Act was signed into law. About 60 bank acquisitions of thrifts have been announced under that thrift-bailout legislation.

Many bankers will want to consider the following questions before proceeding with such an acquisition: Why should I consider acquiring a thrift? What should I look for and what should I avoid in examining a thrift for acquisition? What would I do with a thrift?

Why should I consider acquiring a thrift?

There are two reasons for seriously pursuing a thrift. The first is a strategic move. For example, the thrift may be the only institution available for acquisition with significant market share in an attractive new geographic market.

Also, a thrift acquisition may be the only way to enter a desirable market, because of state or interstate branching restrictions.

The second reason is price. By any standard measure, thrifts are simply less expensive than banks. Since the October 1987 stock market crash, bank transactions involving target institutions with more than $500 million in assets had the following median multiples: 1.8 times price/book, 15 times price/earnings, and 6.0% premium/deposits.

Mr. Mingo is managing director of BEI Golembe Inc., Washington.

During the same period, sound stock thrifts in excess of $200 million in assets sold for the following median multiples: 1.2 times price/book; 12.5 times price/earnings; 2.0% premium/deposits. Thus the typical thrift deal has been approximately a third less expensive than a typical bank deal measured in price/book ratios and price/earnings ratios, and less than half as expensive measured in terms of premium-to-deposit ratios.

What should I look for and what should I avoid in examining a particular thrift before acquisition?

Thrifts are quite different animals than banks, but the differences are often more apparent than real. Here is a checklist of the operating, risk, tax, and regulatory differences that will influence any final decision to acquire a specific thrift.

1. Credit quality. The buyer will need to take more care with the due-diligence process than is typical in a commercial bank acquisition. In particular, the buyer must look closely at the thrift's commercial real estate loan portfolio and commercial real property (for example, other real estate owned and development properties).

Measuring Interest Rate Risk

2. Interest rate risk. The majority of thrifts still suffer from negative GAP. However, interest rate risk can be measured fairly accurately and, more importantly, it can be "priced."

That is, the buyer can measure the impact on the future earnings stream of eliminating any portion or all of the rate risk. Also, many banking institutions are positively GAPed and thus can use a thrift acquisition to reduce consolidated rate risk.

3. Funds volatility. There are two concerns with respect to funds volatility. First, there may be some initial runoff of thrift deposits after an acquisition, especially if the target thrift has been paying higher deposit rates than the other thrifts and banks in town.

'By any standard measure, thrifts are simply less expensive than banks.'

Second, thrift customers have been more rate sensitive than other deposit customers. Even after the initial runoff of deposits, the buyer will need to pay greater attention to how deposit pricing affects deposit levels.

Impact of Exit Fees

4. Issues relating to insurance premiums and entry/exit fees to the insurance funds. This is a complex area, but the buyer should keep some simple rules of thumb in mind.

First, the agencies recently have set combined "entry/exit" fees at 170 basis points in those cases (such as branch purchases) where deposits insured by the Savings Association Insurance Fund are to be converted to the Banking Insurance Fund.

In whole-thrift transactions, these fees are so onerous that virtually no buyers are seriously considering paying them. Thus it is simply a question of how to structure the transaction to avoid paying the entry/exit fees.

Remember that under the thrift-bailout law, the buyer has significant flexibility in structuring a transaction to have the acquired entity insured by either fund and can, therefore, avoid the entry/exit fees.

Tax Recapture Costs

5. Bad debt reserve tax recapture. Thrifts have enjoyed special tax treatment, allowing them to deduct up to 40% of pretax income for additions to bad debt reserves, regardless of actual loss experience.

If the acquired thrift is converted to a bank charter, or merged into a bank, or even if the thrift is left alone as a separate thrift, but certain portfolio restrictions are violated, the previously deferred taxes on the excess loan-loss provisions will become due and payable.

Most buyers are anticipating that this tax will come due, and they are factoring into the purchase price an average of 50 basis points on assets as cost of the tax recapture. Obviously, the actual tax recapture costs will vary depending on the specific institution.

6. Federal Home Loan Bank advances. Some bank buyers may view access to the Home Loan Bank System window as positive. In such cases the thrift acquisition will need to be structured carefully so the institution will continue to meet the qualified thrift lender test embodied in the thrift-bailout law.

As a practical matter, thrifts a fraction of the size of their acquiring bank holding companies will have no difficulty meeting this test.

But failure by the operating thrift subsidiary (or thrift converted to a bank) to meet the test will result in a loss of Home Loan Bank System borrowing privileges and possible forced

See **COMMENT** *next page*

AMERICAN BANKER

Established 1836
One State Street Plaza, New York, N.Y. 10004
212-943-6700

Editor: Fred R. Bleakley
Managing Editor: Thomas J. Ferris
Asst. Managing Editor: Jeffrey Kutler
Washington Bureau Chief: Robert Trigaux
News Editor: Eric M. Starkman
Features Editor: Patricia Stundza
Copy Desk Chief: Domenica Trevor
Art Director: Pamela Budz Moriarty
Statistics Editor: L. Michael Cacace
Senior Columnist: Sanford Rose

STAFF WRITERS
Consumer Financial Services: Wendy Grover, Yvette D. Kantrow, Ellen Memmelaar
Finance: Caren Chesler-Marsh, John Forde, Kelley Holland, Gordon Matthews, David Neustadt, Lisabeth Weiner
International: James R. Kraus
Technology and Operations: Karen Gullo, Jeanne Iida, Richard Layne
Mortgages: Phil Roosevelt

BUREAUS
Washington: Bill Atkinson, Robert M. Garsson, Jim McTague, Barbara A. Rehm. 202-347-5529
Atlanta: Kenneth Cline (bureau chief). 404-364-6572
Chicago: Nanine Alexander (bureau chief). 312-663-6380
Dallas: Steve Klinkerman (bureau chief). 214-748-5666
Los Angeles: Teresa Carson (bureau chief). 213-627-0953
Northeast: Jed Horowitz (bureau chief), Tom Leander, Franklin Smith. 212-943-6700
San Francisco: Sam Zuckerman (bureau chief). 415-986-8705
London: John Evans (bureau chief). 011-441-538-5959

COPY EDITORS
Winnie O'Kelley (assistant chief), Christine Arax, Terry Bormann, Edward Kulkosky, Robert Paul Molay, Howery Pack, Jane Sandiford

ART
Dylan Kreuzer (assistant director), Peggy Turbett, Carl Zeichner

FEATURES
Suzanne Christy, Judy Ferring (assistant editors)

STATISTICS
Harvey Glassman, John Ferring

Contributing Editor: Paul S. Nadler
Editorial Assistants: Lenore Adams, Jackie Albritton, Matthew H. Barthel, Rita Kay Meyer, Lou Schwartz

President: George W. Landgrebe
Executive Vice President Business Services - Con A. Rusling
Senior Vice President, Advertising - Gerald L. Taylor
Vice President, Circulation - Madeline Krakowsky
Production Manager - Erwin W. Hambright

ADVERTISING
New York: 212-943-5280
Chicago: 312-663-6390
San Francisco: 415-421-7950
Los Angeles: 213-382-6346
Charlotte, N.C.: 704-522-7181
Classified: 800-221-1910
International: 212-943-4250
Telex: 421768 ABKR

The American Banker is published daily, except weekends and holidays.
©1990 by American Banker • Bond Buyer, a division of Thomson Publishing Corporation. All rights reserved.
"American Banker" is a registered trademark of American Banker • Bond Buyer. Registered in the U.S. Patent and Trademark Office.
Second Class Postage Paid at new York, N.Y., and at additional mailing offices in U.S.A.
(ISSN No. 0002-7561)
Postmaster: Send address changes to American Banker, One State Street Plaza, New York, N.Y. 10004
Subscription Rates: U.S. $635 a year, Canada $815. Canada Airmail and Foreign $1,120. Single copy $5.75
Telecopier: 212-943-2222

Photocopy and Reprint Permission

Those registered with the Copyright Clearance Center (21 Congress St., Salem, Mass., 01970) have permission to photocopy any article owned by American Banker • Bond Buyer. The fee is $2 per copy of each article.

Copying for other than personal use or internal reference is prohibited without express permission of the copyright owner. Copying of article or columns not owned by the American Banker • Bond Buyer is also prohibited.

Single copies available day of publication: $5; back-issue prices based on date of publication. Address requests for reprints or back issues to American Banker • Bond Buyer, One State Street Plaza, New York, N.Y. 10004, or call 212-943-4845.

Customer Service

For subscription orders, changes in address, help with late delivery, or to report unsatisfactory service, call 800-221-1809 (in New York State, call 212-943-9589 collect).

GRAPEVINE/ *By Jed Horowitz*

Morgan Mines California. J.P. Morgan & Co. is meeting with California bank regulators this week to lay the groundwork for a state-chartered trust company. Morgan Guaranty Trust Co. has run a private banking business out of San Francisco and Los Angeles since the mid-1980s, but cannot legally sell property for clients as a trustee. "Most Californians own real estate," says George W. Rowe, Morgan's new head of private banking on the West Coast, in explaining the move.

The planned trust unit, J.P. Morgan California, will target individuals and family groups with about $5 million of assets, a market that Mr. Rowe concedes is fiercely competitive. "We are really after the investment management business as opposed to the trust business" he said. The well-traveled Mr. Rowe, who had been running Morgan's corporate finance unit in London, said he hopes to have the operation running by early summer.

* * *

Signs of the Times? A group of J.P. Morgan officers were chagrined recently to receive service charges for checking accounts they keep at the Bank of New York. It seems that for years Bank of New York has offered free checking, with no minimum balance requirements, to officers of Morgan and other financial institutions in an effort to build its personal banking business. Bank of New York sources say one branch mistakenly assessed the Morgan officers a $6 maintenance fee, but admit the bank is considering revising the free privileges.

Bank of New York veterans can sympathize with their Morgan pals. For years, Bank of New York officers and their colleagues at the U.S. Trust Co. enjoyed reciprocal "instant loan" agreements. "We'd apply in the morning, and get it approved by afternoon," a source said, noting that bankers prefer to keep details of their personal finances distant from coworkers. The arrangement ended a few years ago. "We used to have a few hundred officers, and now it's probably thousands," said the official, sighing for a lost era.

* * *

Sweating Out the Movies. Former traders from Salomon Brothers' once mighty mortgage desk are quaking over how they'll be depicted in the screen version of *Liar's Poker*. The book's publisher confirms that the best-selling chronicle of greed and grubbery at the Wall Street trading giant has been sold to producers at Warner Brothers.

The mortgage traders are portrayed by author Michael Lewis as a "brotherhood of hoods," who in their heyday mercilessly exploited thrift executives. Their boss, Lewis Ranieri, "created a trading desk in his own image: Italian, self-educated, loud, and fat," Mr. Lewis writes.

The traders, many of whom have left Salomon, can't bear the thought of the movie. Danny DeVito will play "Lewie," one speculates with shivers. John Candy will run the desk, another says.

* * *

Still Big in Texas. And now for the flip side of those sweet deals regulators cut with early acquirers of Texas banks. NCNB Corp. says its fourth-quarter and yearly expenses rose a whopping 107% in 1989, partly because of "unusually exorbitant" fees paid to real estate agents and other professionals to sell assets inherited with the acquisition of First RepublicBank Corp. of Texas, now NCNB Texas.

"We paid $700,000 to one guy to move property by the end of the year," chief financial officer James Hance told analysts last week.

Personal Resume. Despite his high-profile position, not much is known about Citicorp's new president, "Rick" Braddock. The bank company will only provide a thumbnail sketch: born in Oklahoma City on Nov. 30, 1941; graduated from Dartmouth in 1963 with degree in history, cum laude and Phi Beta Kappa; MBA from Harvard Business School, class of 1965.

Pressed about his family background, a bank spokeswoman says only that Mr. Braddock's father was "an executive."

For the record, a few additions gleaned from friends and colleagues: Mr. Braddock was reared in Greenwich, Conn. His dad, Robert, was president and a director of General Reinsurance Corp. Rick and his second wife, Susan, live on Manhattan's Upper East Side with their six-year-old daughter, Tina. They have five other children between them from previous marriages. Mr. Braddock's oldest daughter recently graduated from Dartmouth.

He's a competitor: squash several times a week, jogging, tennis, and some skiing with the family. He sweated on Dartmouth's intramural basketball teams. He has a vacation home in St. John's Island, Florida, and complains that he doesn't spend enough time there.

Phil Roosevelt contributed to this column.

COINS-1

155389000015 2/ 5/07 C11
STATISTICAL REFERENCE INDEX
JOHN P KENNEDY
4520 EAST - WEST HIGHWAY
SITE 800
BETHESDA MD 20814
NEWSPAPER

AMERICAN BANKER

VOL. CLV NO. 24 Monday, February 5, 1990 155th year

Budget Warning: Insured Deposits Pose Big Threat

By ROBERT M. GARSSON

WASHINGTON — Buried deep in the 1,569 pages of President Bush's 1991 budget are a few simple paragraphs that have heated up the debate over reform of the deposit insurance system.

The document does not make specific policy recommendations. But it warns that bank deposits have become a $3 trillion contingent liability of the federal government, and it raises the question of how the nation's taxpayers can be protected from the threat that "tens of billions of dollars" in bills will soon come due.

ANALYSIS *Follow-up on the news*

Flaws in the deposit insurance system were blamed by many for the thrift crisis. James Barth, former chief economist for the Federal Home Loan Bank Board, said the system sapped market discipline, especially because some large institutions "have been deemed too big to fail."

Yet the rescue law enacted in August, which created a new thrift fund housed within Treasury, hardly touched upon the major deposit insurance issues. Instead, it directed Treasury to conduct a study and report back in February.

Choosing Sides

Now, deposit insurance is moving to the front burner. The New York Clearing House Association recently called for the abolition of the doctrine that the nation's largest banks are "too big too fail." And with the unveiling last week of President Bush's budget, the terms of the debate have been recast with the taxpayer on one side and the banking and thrift industries on the other.

Until now, discussion of deposit insurance has been part of the financial services industry's turf wars. To the securities and insurance industries, deposit insurance gives banks an unfair competitive edge, and the federal backing is cited as a reason for limiting bank powers.

Small banks argue that the foreign branch deposits should be assessed, a position the money-center institutions have thus far been able to defend against.

Savings and loans are looking for parity in the premiums paid by banks and thrifts. Bankers are virtually unanimous in arguing – with considerable emotion – that their insurance fund should not be merged with the new agency created to back thrift deposits.

See **BURIED** *page* **14**

INSIDE NEWS

FINANCE

INTEREST MARGIN pressure is leading many banks to devise new funding strategies. Some are developing marketing initiatives for profitable consumer deposit accounts and looking outside the capital markets for funds. *Page 16*

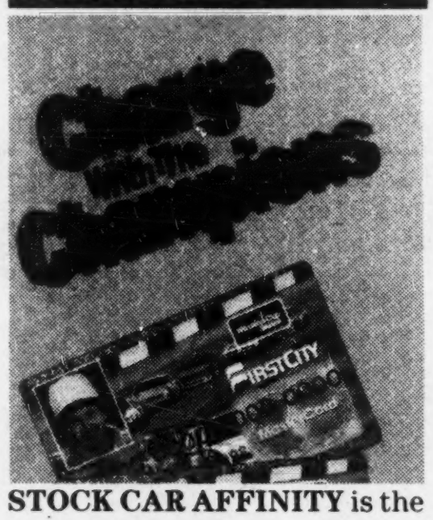
INTERNATIONAL

SOUTH AFRICA'S political liberalization will have no impact on their lending policies, U.S. and foreign banks said Friday. Restoring normal financial ties depends on the governments in Washington, London, Bonn, and Paris, bankers said. *Page 2*

TECHNOLOGY

MELLON BANK plans to shave half a million dollars from its travel budget with a new videoconferencing system linking its Pittsburgh and Philadelphia offices. The technology sends electronic video images over telephone lines. *Page 3*

CONSUMER



STOCK CAR AFFINITY is the target of the latest credit card tie-in – First City Bancorporation of Texas' pitch to racing fans via eight cards linked to the National Association for Stock Car Auto Racing. The cards will be introduced Feb. 18, the day of the Daytona 500 race. *Page 8*

WASHINGTON MONDAY

ROBERT BENNETT, special counsel to a panel probing five U.S. senators accused of improperly interfering with regulators on behalf of Charles H. Keating Jr.'s failing savings and loan, is called a "nonpolitical" man. And that may explain his getting the politically sensitive post. *Page 9*

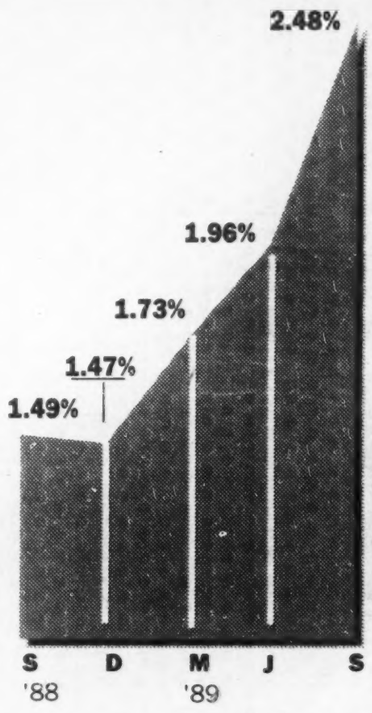
INDEX

Sound Off	4
Classified Advertising	12
Deals	14
Bank and Thrift Stocks	15

New England Examiners Crack Whip, Experts Say

Mounting Loan Troubles....

Percent of nonperforming assets at top banks in region



....Spur Controversy Over Examinations

JOHN J. LYONS *Principal at Lyons, Zomback & Ostrowski*

'I'm very worried that [the regulators] are overdoing it'

PAUL WIECHMAN *Regional director of the Federal Deposit Insurance Corp.*

'We still maintain a fair but firm supervisory posture. We are not changing examination techniques'

By BILL ATKINSON

In the wake of mounting real estate problems, federal examiners are cracking down hard on New England institutions, according to bankers and consultants.

Regulators are harshly scrutinizing loan portfolios, in some cases forcing performing credits to be classified as troubled. Some consultants asserted that examiners are even requiring some new real estate loans to be listed as substandard.

Observers suggested that the regulators are overreacting because of criticism that they moved too slowly when the Texas economy collapsed. They said the hard-line approach could make matters worse by shutting off credit to worthy borrowers and delaying a rebound in the region.

"I'm very, very worried that they are overdoing it," said John J. Lyons, managing principal at Lyons, Zomback & Ostrowski, referring to the regulators. His New York bank and thrift con-

See **NEW** *page* **13**

U.S. Seizes Centrust, Sells Texas S&L To Banc One

By STEVE KLINKERMAN and JIM McTAGUE

Federal regulators seized one troubled thrift on Friday and placed another in safer hands.

The seizure was of the $8.2 billion Miami-based Centrust Bank, the largest thrift in the Southeast. It had been expected.

In Texas, the Resolution Trust Corp. sold Bright Banc Savings of Dallas to Banc One Corp. Banc One will receive $1.9 billion in relatively healthy assets, while the government will continue to control Bright Banc's remaining $1.9 billion in assets. Terms of the deal had not been made public by late Friday afternoon.

The acquisition would give Columbus-based Banc One a $13 billion presence in Texas, where it is the fourth-largest bank company.

About a third of Banc One's $41.4 billion of total assets will be in Texas, hinging a large portion of its financial future on success in the state.

"Success in Texas is vital to the future of the company," said Frank Anderson, a senior analyst with Stephens Inc., a brokerage house in Little Rock, Ark.

The acquisition of Bright Banc adds 50 offices to Banc One's 63-branch Texas network. The bank company has previ-

See **REGULATORS** *back page*

Iowa Governor To Decide Fate Of Interstate Bill

By NANINE ALEXANDER

NEW YORK — One of the last holdouts to the nationwide interstate banking movement is expected to join the fold this week, after the Iowa Legislature voted to open the state's borders to banks from contiguous states on Jan. 1, 1991.

The reciprocal measure allows Iowa banking companies to reach into bordering Illinois, Minnesota, Missouri, Nebraska, South Dakota, and Wisconsin for acquisitions. But it is too early to tell whether Iowa banks will become prey or predators.

If Gov. Terry Branstad signs the bill – as is widely expected – only Hawaii, Kansas, Montana, and North Dakota would still lack laws permitting some kind of interstate activity for banks. Interstate laws are already in effect in 33 states and the District

See **IOWA** *page* **6**

Wolf Likely Replacement for Wall

By BARBARA A. REHM

WASHINGTON — Bush administration officials said Friday that they expect Frederick D. Wolf, the former No. 2 official at the General Accounting Office, will be nominated to succeed M. Danny Wall as the nation's top thrift regulator.

The two other leading contenders have dropped out of the running, leaving Mr. Wolf as the clear-cut choice of the Treasury Department, according to the officials, who asked not to be named.

Mr. Wolf, a 49-year-old partner at Price Waterhouse & Co., wants the job, according to coworkers.

"His governmental juices are still flowing," said one of Mr. Wolf's colleagues. "This job requires a set of skills that very few people possess, so to get the call is a high compliment."

The Treasury Department's official response is that a final decision has not been made on who will replace Mr. Wall as director of the Office of Thrift Supervision. "We're still considering several candidates," said Treasury spokeswoman Cheryl Crispin. The administration has been scrambling to replace Mr. Wall since he announced he would resign on Dec. 4.

Frederick D. Wolf

Mr. Wolf was out of town Friday and could not be reached for comment.

The other top contenders – former Federal Reserve Board Governor Philip C. Jackson and

See **WOLF** *page* **13**

PEOPLE *in the news*

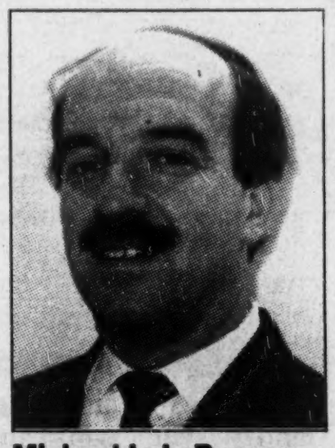
Analysts Laud First Fidelity For Hiring Bank Regulator

By NANINE ALEXANDER

Anthony P. Terracciano won some analysts' praise last week for including Michael L. LaRusso – a bank regulator – among three key appointments at First Fidelity Bancorp., Newark, N.J.

"Bringing in an examiner shows a real sensitivity to the marketplace," said James J. McDermott Jr., an analyst at Keefe, Bruyette & Woods Inc., New York. It sends a "strong signal that [Mr. Terracciano] will move quickly to clear up credit-quality problems by seizing control of credit and operating systems," he added.

Mr. LaRusso, who is 44, has spent 22 years in the Office of the Comptroller of the Currency. In his most recent post, senior national bank examiner in the multinational and regional banking division, he supervised the nation's 11 largest nationally chartered banks.



Michael L. LaRusso

With a veteran bank examiner in a high position, Fidelity will improve its credibility with both examiners and investors, observers said.

"Mike is an expert in credit analysis," said Robert Herrmann, senior deputy in Comptroller's office. That expertise will prove beneficial at First Fidelity, a $30.7 billion-asset superregional holding company that has suffered recently from bad real estate loans.

Moving quickly to put his stamp on First Fidelity, Mr. Terracciano announced Mr. LaRusso's appointment Thursday, his first day as chairman, chief executive officer, and president. Mr. LaRusso will join First Fidelity on Feb. 16 as senior vice president and director of audit and policy development. Mr. Terracciano also named a vice chairman, Peter C. Palmieri, and another senior vice president, Donald C. Parcells.

Mr. Terracciano said that he is focusing on asset quality, productivity, staffing, and business mix and that Mr. LaRusso will be a big help in those areas.

Among the challenges will be determining just where First Fidelity is in its credit curve.

According to one analyst, "One of the first questions he'll have to ask is whether First Fidelity's problems are due to a weak real estate market or weak underwriting practices."

Mr. LaRusso, who was not available for interviews at the end of last week, has served as resident examiner-in-charge at the Bank of America, Chase Manhattan Bank, and Marine Midland Bank. □

NEWS *briefs*

Stockholders Approve Merger of C&S, Sovran

NEW YORK — Shareholders of Sovran Financial Corp., Norfolk, Va., and Citizens and Southern Corp., Atlanta, voted in separate meetings to approve the proposed merger under the name Avantor Financial Corp.

According to a pro forma financial statement, Avantor would have 1,000 offices in eight states from Florida to Maryland and $48.7 billion in assets, making it the 14th-largest banking company in the nation.

The companies plan to complete the merger in the second quarter.

Bill Would Prevent Sale Of Affiliates' Securities

WASHINGTON — Sen. Richard Bryan, D-Nev., and other members of the Senate Banking Committee introduced a bill to prohibit any federally insured deposit institution from selling on its premises the securities of an affiliated company.

"We have heard of too many cases where individuals intended to buy insured certificates of deposit but were steered instead to buy high-yield or so-called junk bonds," Mr. Bryan said. "This is a blatant abuse of depositor trust."

Fed Governor Angell Says Inflation Rate Must Drop

DAVOS, Switzerland — Federal Reserve Board Governor Wayne Angell said the U.S. inflation rate of about 4.5% was unacceptable.

Addressing the World Economic Forum, Mr. Angell said the decline in the inflation rate from double digits in the early 1980s had been one necessary step for the U.S. economy.

"The task in the 1990s is to move from 4.5% to a rate that indeed approaches price stability," he said. — **Reuters**

Downgrade Still Possible For Crossland, Says S&P

NEW YORK — Standard & Poor's Corp. said it continues to review for downgrade certain debt of Crossland Savings despite the thrift's recently proposed recapitalization.

Under review is the B-rated subordinated debt and BB-minus/B certificates of deposit. The company's C rating for preferred stock was affirmed and taken off the CreditWatch list Jan. 8.

S&P said that if the recapitalization is completed and regulatory capital requirements are met, Crossland's CD rating could be affirmed.

— **Reuters**

Brady Sees New Credits To 3d World

By ROBERT M. GARSSON

WASHINGTON — Treasury Secretary Nicholas F. Brady stoutly defended the Third World debt initiative that bears his name, telling a congressional panel Friday that he believes banks will soon renew lending to less developed countries.

Mr. Brady conceded he is disappointed banks participating in the Mexican debt agreement generally preferred to accept partial debt forgiveness rather than lend new money.

But he said signs are visible that banks will choose new money in upcoming accords. An agreement with the Philippines, he said, is an example in which banks already have agreed to make $600 million in new loans.

'A Growth Situation'

"I can't imagine banks won't want to be part of a growth situation," Mr. Brady said. "But if countries can't promote growth, the banks won't want to be in."

He also defended his initiative against criticism that the Mexican accord, the first major Brady Plan agreement, would have only a slight impact on debt service. Mexico has bought zero-coupon Treasury bonds that will cover principal payments on $40 billion of debt, he said.

"Because of the defeasance with zero-coupon bonds, the obligation to repay over $40 billion in debt is removed entirely from this generation of Mexican people," he said.

Mr. Brady said he believes that Venezuela and Brazil "are the two big items in 1990" under his debt plan.

Inflation Moves Downplayed

In an appearance before the Joint Economic Committee, Mr. Brady downplayed the need for new inflation-fighting moves, a view apparently at odds with

See **BRADY** *page* **13**

No Policy Shifts Seen On South Africa Loans

By JOHN EVANS
and JAMES R. KRAUS

U.S. and foreign banks do not expect the political liberalization now taking place in South Africa to have any immediate impact on their lending policies to that country.

The Pretoria government announced Friday plans to free long-time political prisoner Nelson Mandela and lift a 30-year ban on the African National Congress, the blacks' main vehicle for obtaining equal rights.

Some banks reached after the announcement said, however, that there would be no change in policy until free elections were held in South Africa.

A Political Problem

Others said restoring financial relations with South Africa depended mainly on government initiatives in Washington, London, Bonn, and Paris.

U.S. banks are not now permitted to lend to South Africa and have a relatively small amount of loans outstanding, about $2.4 billion in September, down from about $5 billion at the end of 1984. South Africa owes foreign creditors some $23.5 billion.

Loans Not Disclosed

U.S. banks have not disclosed their outstanding loans to South Africa because the amounts fall below what they are required to report under U.S. disclosure regulations.

Among U.S. banks, Citicorp is estimated to be the biggest lender to South Africa with $666 million in outstanding loans, followed by Chase Manhattan with $340 million.

In Europe, banks on Friday welcomed the South African move but said any change in bank policy would be slow.

Some Lending Continues

One European banker noted that banks have continued to lend indirectly to South Africa by lending to customers with investments in the country.

"Most banks have quietly supported their key customers, including granting credits and trade finance for South African business," he said.

A Barclays spokesman, speaking on condition he was not identified, remarked: "I can't see banks considering going back in unless . . . the laws are fully rescinded and public opinion made it acceptable for us to do so."

Forecasts Not Given

The major Swiss banks, which have historically close links with South Africa, including selling the nation's important gold production through the Zurich bullion market, were also reluctant to forecast an imminent normalization of banking and financial relationships with Pretoria.

A spokesman for Union Bank of Switzerland in Zurich said the bank welcomed the liberalization but added that "economic sanctions were the wrong way to address the problem." □

Corrections

A page 2 article on Feb. 2 carried an incorrect headline. It should have stated that the American Bankers Association is seeking a tighter money policy, citing concerns about inflation.

■

A Feb. 2 article ("Risky Loans at 2 Banks Soar Under New Rule," page 1) misstated the size of Bankers Trust New York Corp.'s unused commitments to highly leveraged transactions. It had $1.8 billion committed to such deals at the end of 1989, including $400 million added because of the new definition. The article correctly stated the amount of the bank's outstanding highly leveraged loans at $3.9 billion. □

COMPANY *index*

This index lists significant references to companies and banks in today's issue. Page numbers refer to where stories begin.

A
Advest ... 6
American Bankers Assn. ... 2,8
Amoskeag Bank Shares ... 7
AmSouth Bank ... 3
Arnold & Porter ... 1
Arthur Andersen ... 1
Assn. of Community Organizations for Reform Now ... 8

B
Banc One ... 1
Bank Marketing Assn. ... 16
BankAmerica ... 2
Bank of Boston ... 3,6,7
Bank of New England ... 1
Bank of New York ... 8
Bank of Newport ... 1
Bankers Trust ... 2
Barclays ... 2
Bell Atlantic ... 3
Beneficial ... 7
Brenton Banks ... 1
Bright Banc ... 1

C
Center for Community Change ... 8,9
Chase Manhattan ... 2,10,14
Chemical Bank ... 10,14
Citicorp ... 2,10,14
Citizens and Southern ... 2
Community Resource Projects ... 9
Consumer Bankers Assn. ... 8
Consumer Federation of America ... 8
Continental ... 1
Coverdell & Co. ... 8
Crossland Savings ... 2

D - E
Deutsche Bank ... 2
Dollar Dry Dock ... 8
Dresdner Bank ... 10
Dunnells, Duvall, Bennett & Porter ... 9

F
First Boston ... 16
First City Bancorp. of Texas ... 8
First Fidelity Bancorp. ... 2
First Interstate of Iowa ... 1
First Union ... 16
Fleet/Norstar Financial ... 1
Florida National Banks of Florida ... 16
Ford Motor ... 9
Furash & Co. ... 1

G - I
Gaston & Snow ... 1
Georgia Gulf ... 14
Girozentrale ... 10
Guaranty Bank for Savings ... 1
Hawkeye Bank ... 1
Independent Bankers Association. ... 1
Institute for Strategy Development ... 1
International Business Machines ... 3

J - K
J.P. Morgan ... 7
Jones, Day, Reavis & Pogue ... 1
Kansas City Neighborhood Alliance ... 9
Keefe, Bruyette & Woods ... 2,16
Koor Industries ... 10

L - M
Lloyds Bank ... 10
Luxembourg Bankers Assn. ... 10
Lyons, Zomback & Ostrowski ... 1
Marine Midland ... 2,10
Massachusetts Bankers Assn. ... 1
MCI Communications ... 3
MCorp ... 1
Mellon Bank ... 3
Morgan Guaranty ... 10
Morrison & Foerster ... 8

N - O
Nancy Harvey Steorts & Assn. ... 9
National Consumer Law Center ... 9
National Economic Development and Law Center ... 9
National Neighborhood Coalition ... 8
New York Clearing House Assn. ... 1
NL Industries ... 14

P - T
Peat Marwick Main & Co. ... 1
PictureTel ... 3
Piper Jaffray & Hopwood ... 1
Price Waterhouse ... 1
Public Securities Association ... 7
Resolution Trust Corp. ... 1
Riggs National Bank ... 7
RJR Nabisco ... 8
Secura Group ... 1
Shawmut National Corp. ... 1
Society ... 7
Sovran Financial ... 2
Standard & Poor's ... 2
Standard Chartered ... 2
Stephens Inc. ... 1
Time Warner ... 8

U - Z
U.S. Bancorp ... 16
UAL Corp. ... 14
Union Bank of Switzerland ... 2
United Savings Association of Texas ... 7
Vietnam Veterans of America ... 8
Wells Fargo ... 16
Westdeutsche Landesbank ... 10
Western States Bankcard Assn. ... 8

COMMENT/ *By Alex J. Pollock*

Deposit-Insurance Debate Should Consider Inflation

In 1974, on the 40th anniversary of the creation of the Federal Savings and Loan Insurance Corp., Congress raised the deposit insurance limit to $40,000. From the discussions of the last few months, it seems that commentators believe this represents the good old days and that $40,000 is a much better level of deposit insurance than the $100,000 of today.

Yet the two amounts are the same, adjusted for inflation. The most essential step in economic thinking is to adjust for depreciation of the monetary unit and operate in terms of constant dollars or purchasing power.

Our financial journals and journalism are currently replete with theoretical discussions of deposit insurance. They typically address its effect on managerial incentives, consider its moral hazard, or treat it as a put option granted by the government.

Inflation Ignored

They usually, however, treat deposit insurance limits in nominal dollar terms and seldom or never consider its history in real dollars, adjusted for inflation.

Since 1974, prices in the U.S. have increased about 2½ times. They have multiplied by a factor of five since 1950, and since 1934, when FSLIC deposit insurance was introduced at $5,000, prices have increased by a factor of 9½.

The real story is that while deposit insurance coverage has increased over the past 55 years, its increase has by no means been what the nominal figures suggest.

Expansion Limited

This provides some important lessons in perspective. Adjusted for inflation, from 1974 to 1989, deposit insurance coverage did not increase 2½ times but remained the same. From 1969 to 1989, the coverage did not increase five times but only 1.5 times. From 1934 to 1989, deposit insurance coverage increased not 20 times but only about twice.

What would happen if the $100,000 level remained in place but that we continued to experience an average 4% annual inflation?

With these assumptions, by 1995 deposit insurance coverage will have dropped to $79,000 1989 dollars, or about 20% less than real 1974 coverage. Suggestions have recently been made that deposit insurance coverage should be reduced to $80,000 or $90,000.

Just Do Nothing

In inflation-adjusted terms, we will achieve this by 1995 by doing nothing. If this process continued, by 1999 the real deposit insurance level would be reduced to the equivalent of 1969 coverage, and by 2008 to the equivalent coverage of 1934.

'How much in savings is needed to provide a reasonable retirement income?'

Suppose you are a believer in lower deposit insurance levels. Your policy prescription is clear: hold deposit insurance at its current nominal level and let ongoing inflation reduce the real coverage month by month. This implies a smooth transition with no disruption and has the virtue of utter simplicity.

We might consider that deposit insurance should reflect not only the depreciation of the monetary unit but also the real growth of the economy.

Between 1934 and 1989, real gross national product per capita increased 4.3 times. If we consider deposit insurance relative to gross national product per capita, the ratio has dropped to half its 1934 level. Had we maintained the 1934 level of deposit insurance relative to this measure of general economic welfare, the insurance coverage would now be $205,000.

Perhaps it is correct to say that as the American population grows richer and better educated, the need for government protection of its savings grows less.

Perhaps, on the other hand, the U.S. population now needs more government protection for its savings than in 1934. More savings are needed to provide for a longer retirement with increasing life expectancy, not to mention the lack of support from relatives with the breakdown of the American family.

A Link to Retirement

How much in savings is needed to maintain a reasonable retirement income? Should deposit insurance protect the savings principal that provides this income? How much insurance would this be?

Today's $100,000 coverage protects a purchasing-power annuity of only $5,667 a year for a retired person, in 1989 dollars. Is that too much? Not enough?

However we may define an appropriate level of coverage, any analysis that does not adjust for inflation does not merit consideration. □

Mr. Pollock is president and chief executive officer of Community Federal Savings and Loan Association, St. Louis.

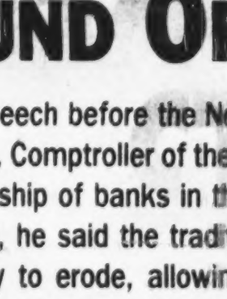
"SOUND OFF"

In a recent speech before the New York State Bankers Association, Robert L. Clarke, Comptroller of the Currency, predicted a change in the nature of ownership of banks in the United States. Given the growing need for capital, he said the traditional separation of commerce and banking is likely to erode, allowing industrial and nonbank financial companies to own banks. Judy Ferring, of the American Banker features department, asked industry leaders and observers:

Q *Should industrial companies be allowed to own banks?*

■ Lawrence P. Klamon
President and CEO
Fuqua Industries, Atlanta

In our case [when Fuqua owned Georgia Federal Bank], we found it not to be a good idea. Combining a financial and a nonfinancial company was all right until [the Financial Accounting Standards Board] changed the accounting rules and we had to combine the balance sheets of the two.

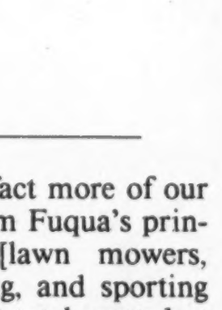


We found it difficult to explain to investors, although there was no problem in running the company itself. [In 1980] we had $800 million in assets, including a $224 million investment in Georgia Federal. Georgia Federal had $4 billion in assets but earned only about 25% of our income.

So we ended up with an entity that looked incredibly leveraged by [financial] industry standards. It made us look like a bank, when in fact more of our income was from Fuqua's principal sources [lawn mowers, photo processing, and sporting goods]. It wasn't total assets but total equity that was important.

Companies like Ford Motor Co. or General Electric are big enough to overshadow their financial organizations, but Georgia Federal's assets were five times Fuqua's. For an industrial company to own a financial institution, if the financial company is larger, it will lower the perceived value of the industrial company.

■ Harold Stuckey
President
Lexington (Neb.) State Bank



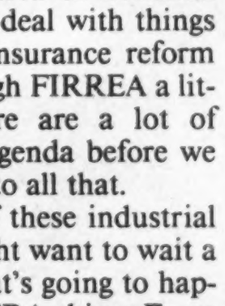
There seems to be a whole variety of different companies that might be in the banking industry. I have more of a problem with nonfinancial companies than I do with one that is somehow related – for instance, brokerage or insurance.

All the financial services are going to get blended together eventually, but it would be chaotic to let nonbanks in right now. We're probably not ready for the whole area of nonbank banks until we deal with things like [deposit] insurance reform and walk through FIRREA a little more. There are a lot of things on the agenda before we logically come to all that.

And some of these industrial companies might want to wait a little to see what's going to happen with this CRA thing. From what we know of FIRREA's CRA requirements, it may be difficult enough for those in the financial industry to deal with it. For someone whose experience is selling shirts and socks, it may be harder.

■ Robert E. Mannion
Partner, Arnold & Porter, Washington;
Former deputy general counsel,
Federal Reserve Board

While I do not think that a complete dropping of the wall would be advisable, it might be wise to allow on a selective basis, particularly when there are troubled financial institutions involved. [A total change] is unwise because industrial companies don't necessarily have the expertise or talent for running a bank.

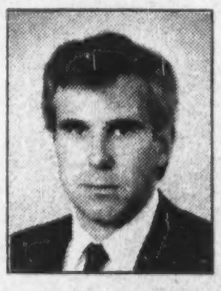


The common argument is industrial companies will abuse banks, but there are severe restrictions on how an owner can use banks in dealing with affiliates. In addition, prior to 1970, several industrial companies did own banks. The Federal Reserve reviewed several – 3M, Goodyear, Beneficial Corp., R.R. Donnelly, Olin Corp. – and found there weren't abuses, so it seems it's possible to do it without severe repercussions.

There are some ways industrial companies might be able to use banks that would make sense: to provide a bank for their employees, for example, or to redevelop an area of the city where they're located.

■ Edward L. Yingling
Executive director,
government relations
American Bankers Association

The ABA supports the concept of banks being allowed to affiliate with firms engaged in all types of financial services, but not those in commerical or industrial activities. There is still a great deal of opposition in Congress and elsewhere to combining banks and commercial activities, based in large part on a "populist" concern about concentration of economic resources.



On the other hand, the walls between commerce and banking are already breaking down; commerical firms already own S&Ls, and S&Ls are increasingly like banks. As S&Ls become even more bank-like, or even become banks, this policy will become increasingly apparent.

Policymakers will have to look at the basic reasons for the separation: concentration of resources, unfair competition, conflict of interest. □

AMERICAN BANKER

Established 1836
One State Street Plaza, New York, N.Y. 10004
212-943-6700

Editor: Fred R. Bleakley
Managing Editor: Thomas J. Ferris
Asst. Managing Editor: Jeffrey Kutler
Washington Bureau Chief: Robert Trigaux
News Editor: Eric M. Starkman
Features Editor: Patricia Stundza
Copy Desk Chief: Domenica Trevor
Art Director: Pamela Budz Moriarty
Statistics Editor: L. Michael Cacace
Senior Columnist: Sanford Rose

STAFF WRITERS
Consumer Financial Services: Wendy Grover, Yvette D. Kantrow, Ellen Memmelaar
Finance: Caren Chesler-Marsh, John Forde, Kelley Holland, Gordon Matthews, David Neustadt, Lisabeth Weiner
International: James R. Kraus
Technology and Operations: Karen Gullo, Jeanne Iida, Richard Layne
Mortgages: Phil Roosevelt

BUREAUS
Washington: Bill Atkinson, Robert M. Garsson, Jim McTague, Barbara A. Rehm. 202-347-5529
Atlanta: Kenneth Cline (bureau chief). 404-364-6572
Chicago: Nanine Alexander (bureau chief). 312-663-6380
Dallas: Steve Klinkerman (bureau chief). 214-748-5666
Los Angeles: Teresa Carson (bureau chief). 213-627-0953
Northeast: Jed Horowitz (bureau chief), Tom Leander, Franklin Smith. 212-943-6700
San Francisco: Sam Zuckerman (bureau chief). 415-986-8705
London: John Evans (bureau chief). 011-441-538-5959

COPY EDITORS
Winnie O'Kelley (assistant chief), Christine Arax, Terry Bormann, Edward Kulkosky, Robert Paul Molay, Howery Pack, Jane Sandiford

ART
Dylan Kreuzer (assistant director), Peggy Turbett, Carl Zeichner

FEATURES
Suzanne Christy, Judy Ferring (assistant editors)

STATISTICS
Harvey Glassman, John Ferring

Contributing Editor: Paul S. Nadler
Editorial Assistants: Lenore Adams, Jackie Albritton, Matthew H. Barthel, Rita Kay Meyer, Lou Schwartz

President: George W. Landgrebe
Executive Vice President Business Services - Con A. Rusling
Senior Vice President, Advertising - Christopher B. Edman
Vice President, Circulation - Madeline Krakowsky
Production Manager - Erwin W. Hambright

ADVERTISING
New York: 212-943-5280
Chicago: 312-663-6390
San Francisco: 415-421-7950
Los Angeles: 213-382-6346
Charlotte, N.C.: 704-522-7181
Classified: 800-221-1910
International: 212-943-4250
Telex: 421768 ABKR

The American Banker is published daily, except weekends and holidays.

©1990 by American Banker • Bond Buyer, a division of Thomson Publishing Corporation. All rights reserved.
"American Banker" is a registered trademark of American Banker • Bond Buyer. Registered in the U.S. Patent and Trademark Office.
Second Class Postage Paid at new York, N.Y., and at additional mailing offices in U.S.A.
(ISSN No. 0002-7561)
Postmaster: Send address changes to American Banker, One State Street Plaza, New York, N.Y. 10004.
Subscription Rates: U.S. $635 a year, Canada $815. Canada Airmail and Foreign $1,120. Single copy $5.75
Telecopier: 212-943-2984

Photocopy and Reprint Permission
Those registered with the Copyright Clearance Center (21 Congress St., Salem, Mass., 01970) have permission to photocopy any article owned by American Banker • Bond Buyer. The fee is $2 per copy of each article.
Copying for other than personal use or internal reference is prohibited without express permission of the copyright owner. Copying of article or columns not owned by the American Banker • Bond Buyer is also prohibited.
Single copies available day of publication: $5; back-issue prices based on date of publication. Address requests for reprints or back issues to American Banker • Bond Buyer, One State Street Plaza, New York, N.Y. 10004, or call 212-943-4845.

Customer Service
For subscription orders, changes in address, help with late delivery, or to report unsatisfactory service, call 800-221-1809 (in New York State, call 212-943-9589 collect).

GLOBAL *dispatches...*

Luxembourg Stands Behind Money-Laundering Rules

LUXEMBOURG — Despite complaints from bankers, Luxembourg's financial regulator strongly defended its tough new rules aimed at curbing money laundering.

The regulations, sent to bankers in November, include a provision requiring banks to identify who has control of an account.

"I remain convinced that it must be possible to know who the customer is," Jean Guill, director of the Luxembourg Monetary Institute, told a financial conference. It is simply unrealistic to expect private banks to find out if their customers are reputable, he added.

The regulator hopes the provision will prevent scandals such as the one involving the Luxembourg-registered Bank of Credit and Commerce International and some of its directors, charged in Florida with laundering millions of dollars from Colombia's Medellin drug cartel.

Luxembourg is keen to protect its reputation in banking, which is a major money earner for the small country. The country has strict bank secrecy laws and has been reluctant to take action against suspected laundering without clear proof.

But some bankers believe the new efforts to prevent fraud are overzealous.

"Implementing regulations to this law give. . . quite a headache to the whole financial community," said Jean Krier, chairman of the **Luxembourg Bankers Association.**

Bankers say it is difficult to comply with the new regulations because it is not always possible to identify exactly who controls an account, particularly when listed in the name of a shell company.

"Sometimes it is very well camouflaged. These crooks are very clever," said Paul Brown, senior general manager at **Lloyds Bank** in London. He and others said bankers need to ask themselves whether they have confidence in a client. If not, decline the business.

Luxembourg has said it is looking into the charges filed in Tampa, Fla., against BCCI, which last month reached a plea-bargain agreement under which some charges were dropped in return for cooperation in the investigation and the forfeiture of $14.8 million.

U.S. prosecutors say they have taped evidence showing that BCCI directors knew money was coming from criminal activities but ignored it. The bank has denied the allegations in court.

— Reuters

... by country

ISRAEL

Foreign and domestic creditors of **Koor Industries** Ltd., Israel's biggest industrial group, reached a compromise early Friday to write off $255 million in debt, according to a Finance Ministry official.

The compromise capped three days of intensive negotiations over the conglomerate's fate. "I think we finished with the foreign banks. I suppose they will get approval from their management," Finance Minister Shimon Peres said.

Under the deal, foreign banks will write off $75 million of the $250 million owed them, the official said. Israeli banks agreed to write off $180 million of the $800 million they put up.

Koor's board has extended its halt on interest and principal payments until a comprehensive solution can be reached, a company official said Thursday.

— Reuters

PHILIPPINES

Manila will have to lower some of the economic targets agreed upon with the International Monetary Fund because of a shortfall in new funding from abroad, said outgoing central bank Governor Jose Fernandez.

Philippine officials will discuss possible revisions with an IMF review group arriving in March, Mr. Fernandez said.

The Philippines earlier said it wanted to raise $1 billion in new money from commercial banks, but officials now expect $700 million to $750 million.

The Philippines will sign an agreement in Tokyo on Feb. 16 for the new loans, to be backed by the issue of 15-year bonds on the Luxembourg market.

After a failed coup attempt in December, Manila scaled back its growth projections for 1990 to between 5% and 6% from the original 6.5%.

In exchange for an IMF financial package of over $1 billion, Manila had committed to the following targets: gross reserves of $4.04 billion, a current account deficit of $1.40 billion, exports of $8.9 billion, and imports of $11.4 billion.

— Reuters

MEXICO

Responding to criticism, Mexico's chief debt negotiator said a $48.5 billion debt-reduction pact represents "the beginning of life after debt" for Mexico.

Assistant Finance Minister Jose Angel Gurria said the accord, coupled with earlier debt-for-equity swaps, and buybacks, will shave some $20 billion off Mexico's debt, which totaled $100 billion in 1988.

U.S. Treasury Secretary Nicholas Brady, International Monetary Fund Director Michael Camdessus, and the heads of 15 of Mexico's leading commercial creditor banks were scheduled to sign the debt-reduction agreement in Mexico on Sunday.

"It's not a celebration, it's not a fiesta, it's a ceremony to mark the beginning of life after debt," Mr. Gurria said.

— Reuters

Chase Offers Net-Settlement Plan

By JOHN EVANS

LONDON — Chase Manhattan Bank has launched a new service for its correspondent banks in Europe that it says will significantly reduce their exposure to settlement defaults.

The new service is a settlement system whereby banking debits and credits in U.S. dollars that normally require individual transfer payments are settled as a lump-sum net payment in a single transfer.

A Chase spokesman said the bank's service, ChaseNetting, will allow banks to significantly "reduce the size of their currency flows and their settlement requirements."

For example, a foreign bank that was owed $1.2 million and was paying out $1 million would receive a single net payment of $200,000 instead of having a total of $2.2 million in currency flows in both directions.

Regulators Were Worried

The system, based on bilateral netting, addresses the concerns of central banking regulators about systemic risks that could result in a major international crisis if a bank defaulted on a netting transaction, the Chase spokesman said.

The Federal Reserve Board and major European banks conducted an "extensive" review of Chase's netting service before it was launched, the bank spokesman said.

The Chase service, designed to handle U.S. dollar payments generated by banks in the European Community, was first tested with three European partners – Dresdner Bank and Westdeutsche Landesbank of Germany and Austria's Girozentrale. Eleven banks have now agreed to participate in the service, Chase said in an announcement.

Chase Is Largest Clearer

Chase said the service was developed from its experience as the world's largest dollar clearing bank, handling more than $316 billion in daily payments. It is designed to handle the rising volume of cross-border payments in U.S. currency, accepting all types of bank-to-bank transactions, including foreign exchange, money market, and commercial cover payments.

The bank says the new service for correspondents abroad will reduce exposure to defaults.

The bank hopes to launch the service in Canada and several Asian countries later this year, after passing the necessary regulatory reviews, the spokesman said.

Meanwhile, FXNET, a banking consortium specializing in foreign exchange netting transactions, has circulated internal data to members saying major savings are being made with its service.

FXNET member banks, routinely transacting up to 175 currency deals in U.S. dollars daily in London, are reducing the average number of their outgoing payments by 92%, to six from 75 individual transactions.

This is equivalent to a cut to $187.5 million a day, from $750 million.

Compression Substantial

The average reduction in payments across the whole system, in currencies such as the British pound, Japanese yen and German mark, is between 50% and 60% daily, FXNET data shows.

According to Peter Bartko, a Chemical Bank executive who is chairman of FXNET, these reductions are worth up to $250,000 in annual savings to member banks, with cost cuts realized through fewer payments through the Swift interbank transaction networks as well as reduced costs in the banks' own back offices.

London-based FXNET has 15 U.S. and European member banks. Five more banks are waiting to join. □

Japanese Banks Lead in Backing U.S. Municipals

By TERENCE M. SMITH
Global Guaranty

NEW YORK — Japanese banks in 1989 were the leading issuers of letters of credit for U.S. municipal securities, according to a Global Guaranty survey.

Four Japanese banks accounted for 41% of the more than $12 billion in U.S. municipal securities backed by letters of credit. Sixteen of the top 25 banks were from outside the United States, including ten from Japan.

Foreign banks are the leading issuers of letters of credit for U.S. municipal securities because their letters typically carry higher credit ratings than those of their U.S. counterparts.

Municipalities prefer to use the highest-rated letters because it allows them to issue debt at lower interest rates.

Marine Midland Capital Markets Inc., ranked fifth, Citicorp Securities Markets Inc., ranked seventh, and Morgan Guaranty, ranked ninth, were the leading U.S. bank letter issuers last year.

***Global Guaranty* is an *American Banker* newsletter.**

Top Bank Guarantors of Municipal Securities
1989 totals

	Volume ($ in millions)	Number of issues	Market share
The Fuji Bank Ltd.	$2,171.6	32	17.8%
Mitsui Bank	748.9	16	6.1
Marine Midland Capital Markets	539.4	14	4.4
Citicorp Securities Markets Inc.	402.5	15	3.3
Morgan Guaranty	341.7	4	2.8

Sources: Securities Data Co., Global Guaranty

Key International Rates*

	Day-to-day money			3-mo. interbank			6-mo. interbank			Discount rate			Prime equivalent		
	2/02	2/01	1/26	2/02	2/01	1/26	2/02	2/01	1/26	2/02	2/01	1/26	2/02	2/01	1/26
United States	8.25	8.25	8.25	8.37	8.37	8.37	8.43	8.43	8.43	7.00	7.00	7.00	10.00	10.00	10.00
Japan	6.56	6.56	6.68	7.06	7.06	7.06	7.25	7.25	7.18	4.25	4.25	4.25	4.87	4.87	4.87
Canada	12.81	13.31	12.50	12.75	12.50	12.50	12.37	12.25	12.00	12.59	12.29	12.29	13.50	13.50	13.50
U.K.	15.06	14.93	14.93	15.12	15.12	15.18	15.18	15.12	15.18	14.45	14.56	14.56	15.00	15.00	15.00
West Germany	8.00	8.00	7.75	8.25	8.25	8.31	8.43	8.50	8.56	6.00	6.00	6.00	10.50	10.50	10.50
Switzerland	9.50	9.50	9.50	9.62	9.68	9.87	9.62	9.68	9.75	6.00	6.00	6.00	11.50	11.50	11.50
France	10.68	10.62	10.75	10.93	11.00	11.06	11.06	11.12	11.18	9.50	9.50	9.50	11.00	11.00	11.00
Italy	13.43	13.43	14.00	13.00	13.00	13.00	13.00	13.00	13.18	13.50	13.50	13.50	14.00	14.00	14.00

Forward Rate Agreements

	U.S. dollars	Sterling	West German marks	Swiss francs	Yen
3 to 6 months	8.38	14.75	8.50	9.47	7.32
6 to 12 months	8.63	14.14	8.60	9.96	7.32
12 to 24 months	9.17	13.08	8.43	9.03	6.99

* Midday quotes in the New York market

Source: Noonan, Astley & Pearce Inc., New York.

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov. 1, Pgs: 2, 4, 10

_____

_____

_____

_____